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TAGS: [ENGR](#) [ECON](#) [EPET](#) [ETRD](#) [KPWR](#) [EAID](#) [PGOV](#) [AF](#)  
SUBJECT: Central Asia-to-South Asia Regional Energy Market  
(CASAREM)- The Electricity Corridor Project is a Go

¶1. Summary. The four countries working to create an electricity transmission corridor between Central and South Asia took a major step forward in their Third Ministerial Conference in Kabul, November 14-16, 2007. Representatives agreed on the scope and preliminary technical definition of the project, on guidelines for cost- and risk-sharing, to establish a Council and Secretariat to oversee work in the next phases, on a plan of actions needed to bring the system online in 2011, and on an approach to financing the required investment (estimated at USD 500 million). The international financial institutions (IFIs) demonstrated a continuing commitment to organize financing for the effort. This project is on track to provide major economic opportunities for the countries involved. The next significant milestone, formal signature of an inter-governmental agreement, is scheduled to take place at the next Ministerial Conference in Bishkek (Summer 2008).

¶2. Just as important as the decisions themselves, this conference marked the first time the countries took responsibility for the project and negotiated amongst themselves without the direct engagement of the U.S. or the Multilateral Development Banks (MDB) staffs. The private sector, led by the World Bank's International Finance Corporation (IFC), showed a somewhat enhanced interest in the project, which took the countries by surprise and caused them to demonstrate significant resistance to a real private sector equity role. While decisions made during the conference do not preclude a significant private sector role, they may limit their flexibility; the countries will continue to digest some of the private sector suggestions. End Summary.

¶3. The ministers who met November 14-16, 2007 in Kabul to negotiate the creation of a Central Asia-to-South Asia electricity market, concluded that feasibility assessments (conducted by consultants on their behalf) demonstrated that a project to build a transmission line to carry 1000 megawatts of electricity from Kyrgyz Republic and

Tajikistan to Afghanistan and Pakistan is technically and economically feasible, and signed a memorandum of understanding to proceed to realize the project. Progress made during the conference represented a major step forward in defining a project long promoted by the United States working with the four countries and international institutions, to connect energy-hungry South Asia to the rich potential in Central Asia.

¶4. The project now moves into an even more active stage where the parties begin to organize the institutions which will regulate the multi-country facility, negotiate a series of agreements that will structure the facility, and assemble the financing to execute the project. The representatives laid out a timeline and a program of work that would launch construction early in 2009 and project completion of the transmission facility by the end of 2011.

¶5. The four countries were represented at Ministerial level. Host nation, Afghanistan, was represented by Minister of Energy and Water Ismail Khan; and Minister of Economy and Chairman of the Interministerial Committee on Energy Dr. M.J. Shams. Tajikistan's delegation was led by Ministerial-rank envoy, Sharif Rahimzoda, Chairman of the State committee on Investments. Pakistan's delegation was led by Alternate Secretary of Power, Yusuf Memon; and Kyrgyzstan's delegation was led by Deputy Minister of Energy, Tiumenbaev. The Afghan delegation was joined by a large number of governmental officials and Parliamentarians throughout the conference. Representatives of the Asian Development Bank, Islamic Development Bank, and the World Bank (International Finance Corporation) participated, as did a USDel led by the State Department's Robert Deutsch, Senior Advisor (Economic Integration), Bureau of South and Central Asian Affairs with the active participation of the Embassy (ECON, ARG, and USAID) and USAID

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Washington. A representative of the German assistance agency GTZ also attended the opening session. Private sector companies which had expressed an interest in the project also attended, including AES (U.S.), RAO Inter UES (Russia), the Aga Khan Network, and Xenel Industries (Saudi Arabia).

¶6. After reviewing the pre-feasibility work prepared for the conference by technical economic consultants SNC Lavalin (funded by the Asian Development Bank) and commercial consultant team of Fieldstone, Chadbourne, & Parke and Nexant (funded by the World Bank), the conference discussed a number of points concerning the scope and structure of the project. The IFIs questioned the economic viability of the inclusion of a 300 mega-watt offtake capability in Kabul at a cost of USD 72 million, because of limited capability to use the electricity (and summer-only power in the early years of the project); they also questioned the economic viability of a Kyrgyz-Tajikistan interconnection (originally estimated at USD 270 million, but revised down to USD 70 million by Kyrgyz suggestions for simplification of the work) given limited electric surpluses to be carried. The consultants provided updated analysis which convinced the countries to maintain these elements in the project scope. For the project comprising these elements in addition to the basic line from southern Tajikistan to northern Pakistan, the total investment is estimated on the order of USD 500 million.

¶7. The countries also analyzed the potential structures for organizing the eventual operation. The IFC offered to make a small initial investment to fund development work into a company to be formed to represent the eventual operator of the transmission link, given that the countries have repeatedly indicated they wanted private sector partners and had a preference for a public-private partnership. However it became clear that all of the countries involved were uncomfortable with the idea of significant private sector control of the envisaged transmission system and resisted making structural decisions that would significantly enhance the likelihood of participation of the private sector in the project. The issue of private participation was further reviewed with the four private sector attendees. While they were briefed generally on the progress made to date in defining the transmission project and its structures, the companies' request for complete access to the pre-feasibility work was denied, as was their suggestion that they

might still yet be able to put together an alternate structure for a privately developed project. Pakistan, in particular, was unwilling to release the range of data in the feasibility reports, while several countries (particularly Afghanistan) appeared unconvinced both about the need for substantial private sector investment in this infrastructure as well as in the credibility of the private sector option. The spurt of interest by these companies contrasted sharply with the tepid response to the Commercial Consultant's work to identify private sector interest and the experience with AES and RAO, which have both been examining and assembling the pieces of this project independently for some two years.

18. The discussion also focused on the potential for financing the investment in the power lines. The three development banks had suggested that they could be able to fund the majority of the effort; however, funding the full scope of the project would require additional lenders or investors. The countries debated how to divide responsibility for the financing since much of it would involve sovereign guarantees. Pakistan resisted strongly any arrangement under which it would be responsible for any investments that were beyond its territory. Afghanistan resisted outcomes that would have it responsible for the bulk of the required assets given that more of the benefit seemed to accrue to the other countries and because of the constraints on its access to assistance or finance. In this, the first negotiation that occurred among the four participating countries alone (IFIs and donors excluded from the

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discussion), the national representatives agreed on responsibility for assets in their territories, but that an effort would have to be made - regarding the manner in which the funds were raised, relative pricing, and transmission/royalty fee allocation - to offset Afghanistan's opportunity costs.

19. In the MOU the countries concluded that:

- o The work would move into the institutional formation and negotiation stage;
- o Mutual Benefits would be a guiding principle;
- o They would form an intergovernmental council to regulate the project and operation, with a small secretariat based in Kabul;
- o That a special purpose company would develop, construct and operate the system;
- o That each country would be responsible for financing and owning the assets on its territory, which would be leased to the operating company;
- o That they would seek financing from the IFIs and donors, with a special emphasis on mitigating the opportunity cost to Afghanistan;
- o That the transmission system would operate as a common carrier, with pricing based on international norms; and,
- o That the Inter-governmental Council, with the help of the Consultants, would proceed to launch the series of negotiations required to take the project to full implementation.

110. Comment: The Kabul conference represents a major step forward towards creating a Central-South Asia electricity transmission corridor. For the first time, the country delegations took the issues into their own hands rather than being pushed and pulled along by the U.S. and the IFIs. They committed to spend some of their own money shortly in the staffing and operation of the small IGC secretariat. It is still a learning process for all involved in how a major system like this is developed, financed and operated as a commercial proposition internationally, as demonstrated by the resistance to the private sector options. However, it is clear that the discussions are creating understanding among the participating senior officials and Ministers, which will have a broader impact on their approaches to the electricity sector. The Conference concluded with agreement on the relatively intense range of work ahead and selection of one of the participants, Pakistan's

transmission company head Qazi, rather than an IFI or consultant to take responsibility for pressing the countries to complete the actions required over the next 30 days to form the IGC. End comment.

¶11. This message was drafted by SCA Senior Advisor, Robert Deutsch.

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